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Message Text

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PAGE 01 STATE 141712
ORIGIN NEA-07

INFO OCT-01 ISO-00 INR-05 EB-04 L-01 SS-14 SP-02
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DRAFTED BY NEA/INS:JRMALOTT:JES
APPROVED BY NEA/INS:JRGRAHAME
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FM SECSTATE WASHDC
TO AMEMBASSY COLOMBO IMMEDIATE

C O N F I D E N T I A L STATE 141712

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LIMDIS

E.O. 11652: GDS

TAGS: EGEN, CE

SUBJECT: INFORMATION FROM IMF/WASHINGTON

REF: COLOMBO 2240

1. IMF SOURCES IN WASHINGTON INFORMED US LAST FRIDAY THAT SRI LANKA TREASURY DEPARTMENT HAS PREPARED POSITION PAPER ON AGGRAVATED BUDGET DEFICIT PROBLEM WHICH CONTAINS FISCAL POLICY RECOMMENDATIONS FOR SUBMISSION TO COMMITTEE OF DEVELOPMENT SECRETARIES EARLY THIS WEEK. PAPER IS REPORTED TO CALL FOR LIMITING WHEAT/WHEAT FLOUR IMPORTS AND INCREASING PRICE OF WHEAT FLOUR DOMESTICALLY. IMF FEELS THAT RECOMMENDATIONS CONTAINED IN PAPER WILL ULTIMATELY REACH FULL CABINET AND PRESIDENT JAYEWARDENE FOR DECISION.

2. FOR YOUR INFORMATION, AT MAY 17 MEETING OF IMF BOARD OF DIRECTORS, THE IMF STAFF POINTED OUT HOW RECENT WHEAT FLOUR
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PRICE INCREASE TO RS. .72 PER POUND FELL FAR SHORT OF EXPECTED INCREASE TO MINIMUM RS. 1.0. THE LIMITED PRICE INCREASE WILL OBVIATE CHANCES OF REACHING BUDGET TARGETS SET IN NOVEMBER BUDGET AND FORCE SRI LANKA INTO DEFICIT FINANCING OF WHEAT FLOUR IMPORTS. IMF STAFF BELIEVES THIS IS CONTRARY TO SUBSTANCE OF PREVIOUS AGREEMENTS.

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3. DESPITE ASSURANCES FROM THE GOVERNMENT THAT FURTHER WHEAT FLOUR PRICE INCREASES ARE FORTHCOMING, IMF STAFF ARE DISTURBED. THEY INDICATE THAT THE NEXT IMF MISSION TO ARRIVE ON/ABOUT JUNE 20 WILL TELL GSL THAT UNLESS POSITIVE STEPS ARE TAKEN SOON, NEGOTIATIONS ON EXTENDED FUND FACILITY WILL BE AFFECTED. WE SUGGEST YOU MAY WANT TO CONTACT ANOOP SINGH FOR FURTHER DETAILS.

4. YOU CAN EXPECT POSITIVE RESPONSE TO COLOMBO 2440 IN A DAY OR TWO. VANCE

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